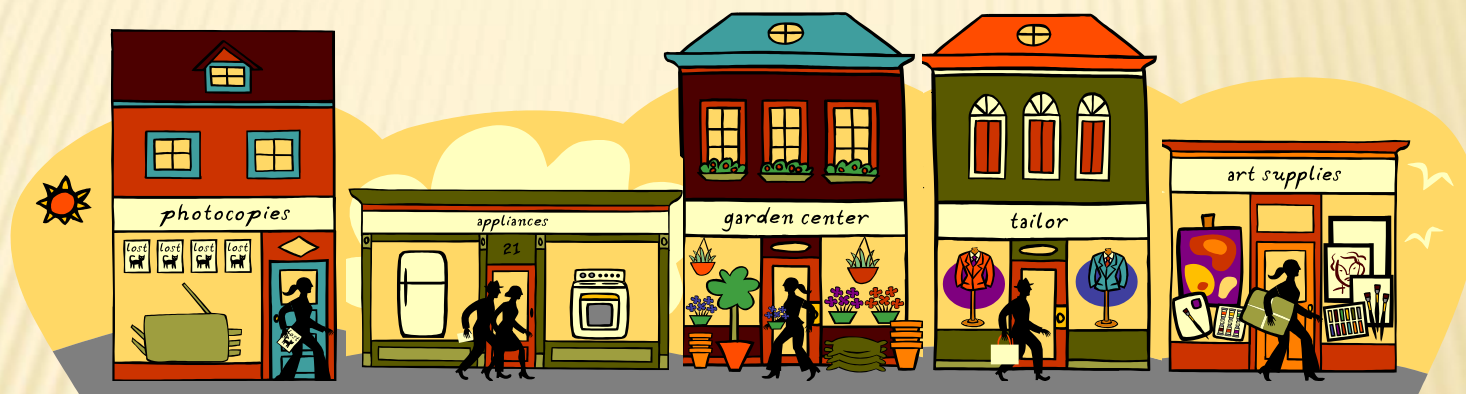


MEMBER BUSINESS LENDING

Regulators' Perspective



Hosted by NCUA Board Member Gigi Hyland
November 18, 2009

Your savings federally insured to at least \$250,000
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NCUA

National Credit Union Administration, a U.S. Government Agency

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INTRODUCTION

- **Our goal is to provide practical guidance, share insights and discuss the examiner's perspective on member business lending.**
- **Presenters will draw from their experiences to provide you perspectives at the state and federal level.**
- **We will have a Q&A session at the end to address specific issues.**

HOW THE WEBINAR WILL WORK

Disable “Pop-Up Blocker”

Submit questions anytime during the program

Questions and poll responses are anonymous

POLL QUESTION

**MEMBER BUSINESS LENDING
AT YOUR CREDIT UNION**

AGENDA

- **MBL Financial Trends**
- **State MBL Examination**
- **MBL Guidance and References**
- **Federal MBL Examination**
- **MBL Implementation**

POLL QUESTION ANSWERS

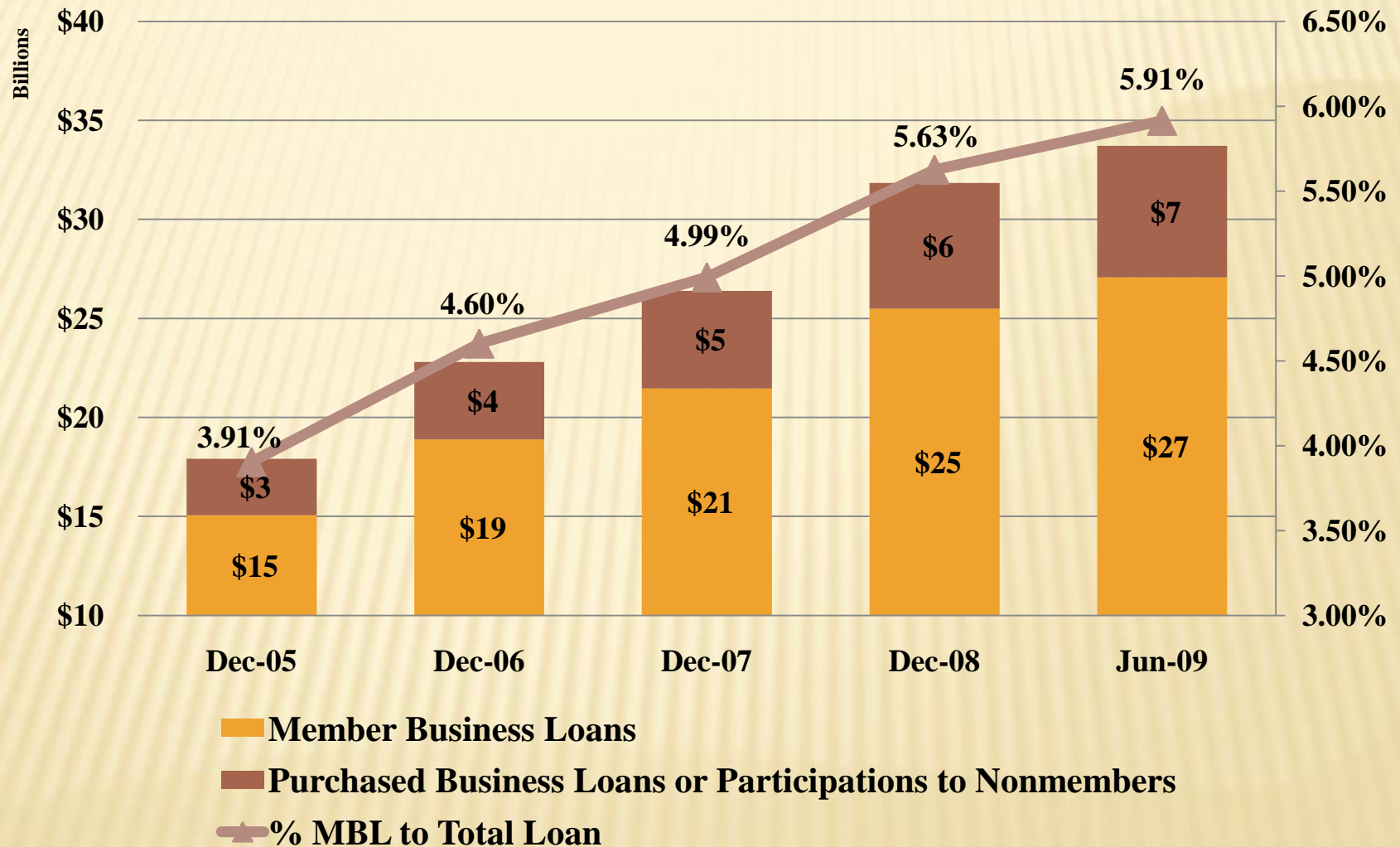
MEMBER BUSINESS LENDING AT YOUR CREDIT UNION

FINANCIAL TRENDS

8+ Year Comparison - FICUs

	December 31, 2000	June 30, 2009	Annual % Chg
Number of FICUs	10,316	7,691	-3.0%
Total Assets	\$438.2 billion	\$870.2 billion	11.6%
Total Shares	\$379.2 billion	\$735.5 billion	11.1%
Total Loans	\$301.3 billion	\$570.0 billion	10.5%
Total MBLs	\$4.7 million	\$32.5 billion	72.6%
Net Worth Ratio (Aggregate)	11.42%*	10.03%	-1.15%

MBL GROWTH TREND

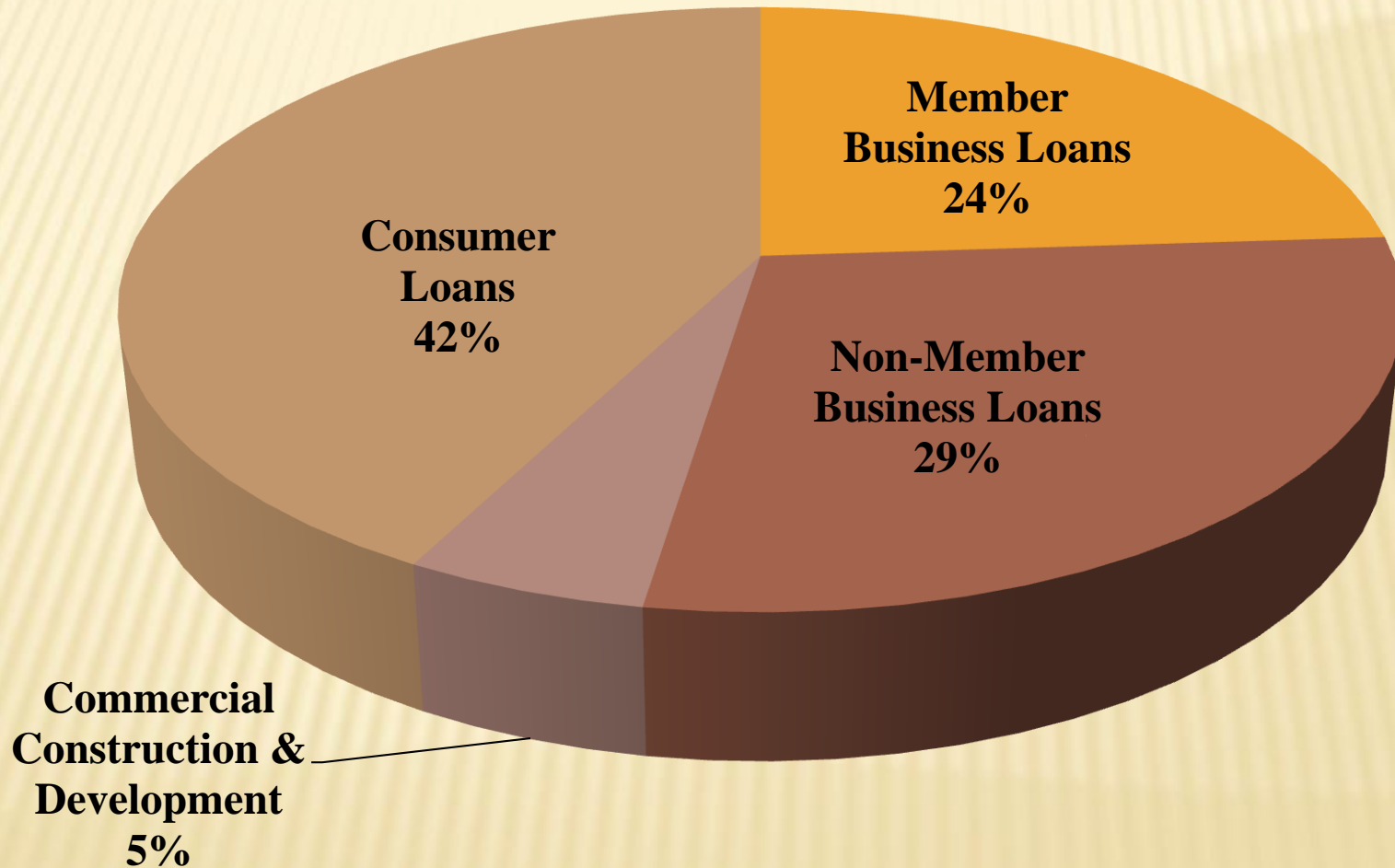


MBL COMPOSITION

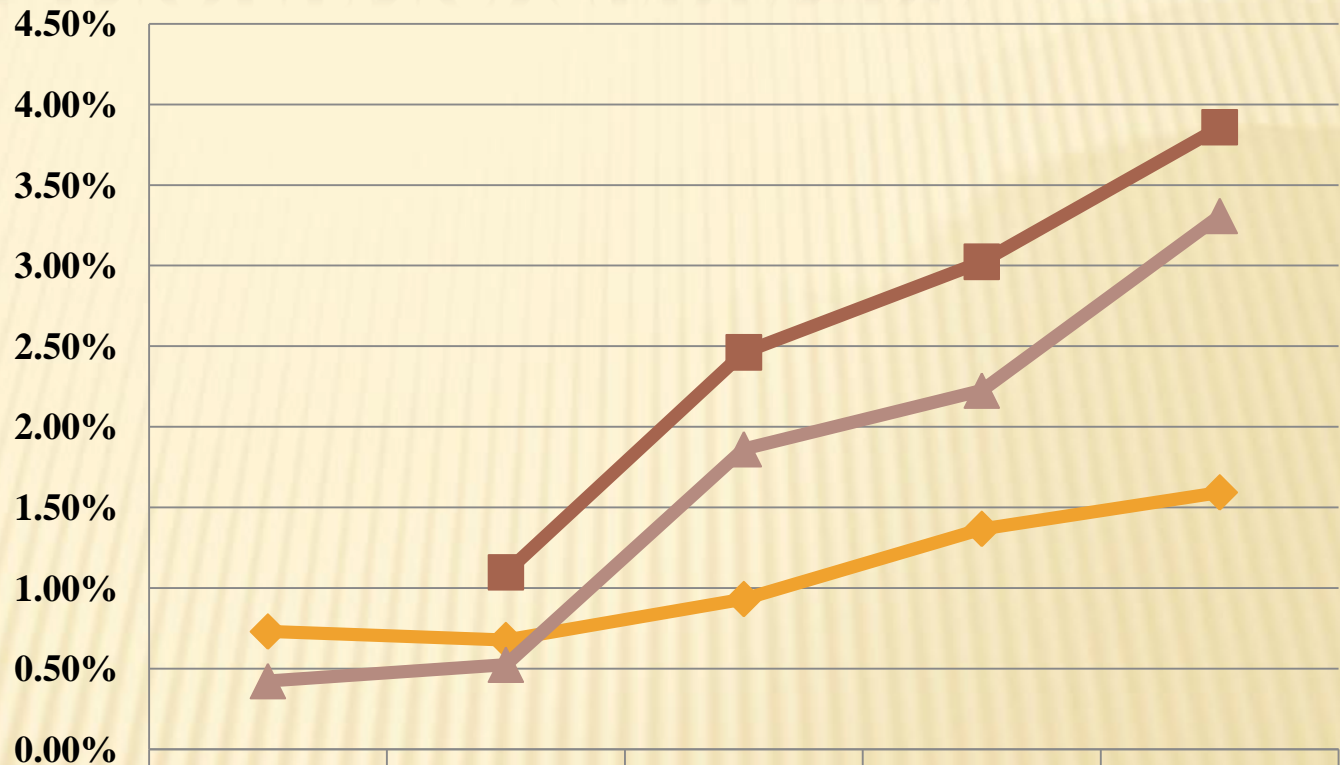
	Dec-05	Dec-06	Dec-07	Dec-08	Jun-09
Construction and Development	\$ 1,218	\$ 1,747	\$ 2,022	\$ 1,965	\$ 1,757
Agricultural Related Loans	\$ 790	\$ 869	\$ 984	\$ 1,108	\$ 1,167
SBA Loans	\$ 235	\$ 483	\$ 427	\$ 520	\$ 570
Unsecured Business Loans	\$ 71	\$ 72	\$ 111	\$ 134	\$ 145
RE reported as Business Loans	70.1%	71.9%	74.6%	76.8%	76.4%




* Dollar amount are in millions

COMPOSITION OF LOAN PARTICIPATION



MBL DELINQUENCY TRENDS



	Dec-05	Dec-06	Dec-07	Dec-08	Jun-09
 Delq Lns / Total Lns	0.73%	0.68%	0.93%	1.37%	1.59%
 Part Delq > 2 Mo / Total Part		1.10%	2.46%	3.02%	3.86%
 MBL Delq > 2 Mo / Total MBL	0.42%	0.53%	1.86%	2.23%	3.31%

THE MBL EXAMINATION PROCESS: STATE SUPERVISORY AUTHORITY'S PERSPECTIVE

Linda Jekel

Director of Credit
Unions

State of
Washington



SSA PERSPECTIVE ON MBL

- **1998 CU Membership Access Act imposed new limit on aggregate MBLs**
- **NCUA Board may approve a state's MBL rule, see NCUA Rule 723.20 for requirements for SSA application**
- **6 states received approval:**
CT, MD, OR,
TX, WA, WI



SSA RULES ON MBL

- **The 6 SSA rules on MBL are similar to NCUA MBL rule**
- **SSAs consult with NCUA Region on all decisions of MBL application waivers except appraisal requirements**
- **SSA and NCUA must approve application waivers on appraisal requirements**

POLL QUESTION

RISK RATING SYSTEM

WASHINGTON STATE RISK RATING SYSTEM

**Ratings help credit unions allocate resources in
managing MBLs**

- 1. Pass**
- 2. Substantial**
- 3. Doubtful**
- 4. Loss**
- 5. Watch**
- 6. Special Mention**

WASHINGTON STATE IMPLEMENTING RISK SYSTEM

- **Ratings are assigned at each underwriting or credit approval action.**
- **Credits above certain dollar amount or poor initial credit rating should be reviewed annually.**
- **Also, update rating when you receive current financials.**
- **Credit unions conduct on-going validation process on rating system.**

POLL QUESTION ANSWERS

RISK RATING SYSTEM

MBL GUIDANCE

Research and Planning

References

Research and Planning

- **What are the membership's business relationship needs?**
- **Is there a commercial lending market that the credit union can penetrate and realistically service better (more than just price) than other local financial institutions?**

Research and Planning

- **What are the credit union's strategic, operational, and financial needs; and does developing a viable commercial lending program meet those needs?**
- **Will developing a commercial lending program divert necessary resources from other key operational areas?**

References

- **Federal Credit Union Act § 107A**
- **Rules & Regulation 701.22, 722, 723**
- **NCUA Examiner Guide Appendix 10A**
- **AIRES Exam Questionnaires**
- **NCUA Opinion Letters**

References

- **Supervisory Letter on Member Business Loan (currently in development)**
- **FFIEC Prudent Commercial Real Estate Workout Guidance**
- **Interagency Guidance on Concentration in Commercial Real Estate Lending, Sound Risk Management Practices**

References

- **LCU No. 08-CU-26 – Evaluating Loan Participation Programs**
- **LCU No. 09-CU-19 – Evaluating Residential Real Estate Mortgage Loan Modification Programs**
- **LCU No. 07-CU-13 – Supervisory Letter - Evaluating Third Party Relationships**

THE MBL EXAMINATION PROCESS: FEDERAL REGULATOR'S PERSPECTIVE

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NCUA MBL EXAM PROCESS

Initial Discussion with MBL VP

- **Strategic Goals and Objectives**
- **Department Structure – Staff Experience**
- **Policies and Procedures**

NCUA MBL EXAM PROCESS

Initial Discussion with MBL VP (cont.)

- **Underwriting and Servicing**
- **Pricing Strategy**
- **Reporting**

NCUA MBL EXAM PROCESS

MBL Loan Review

- **Credit Memorandum**

- **Borrower**

- **Loan Purpose**

- **Repayment Sources**

- **Terms**

- **Collateral**

- **Guarantors**

- **Risk Rating**

- **Narrative**

- **Financial Analysis**

- **Approvals**

- **AIRES Questionnaires**

NCUA MBL EXAM PROCESS

Determining Servicing Practices

- **Risk Rating Process**
- **Loan Covenant Monitoring**
- **Collateral Monitoring**
- **Appraisal Process**

NCUA MBL EXAM PROCESS

Determining Servicing Practices (cont.)

- **Renewals, Extensions and Modifications**
- **Delinquency Control**
- **Watch Loan Procedures**
- **ALLL Analysis Procedures**

NCUA MBL EXAM PROCESS

Drawing Conclusions

- **MBL Strategic Goals fit CU Strategic Goals**
- **Risk Profile**
- **Department Structure**
- **Underwriting Practices**

NCUA MBL EXAM PROCESS

Drawing Conclusions (cont.)

- **Servicing Practices**
- **Reporting and Management Oversight**
- **Portfolio Management**

MBL IMPLEMENTATION FROM BOTH THE FEDERAL AND STATE PERSPECTIVES

Implementation Issues

Best Practices

Weaknesses

Implementation Issues

- **Expertise**
- **Concentration**
- **Loan Participation**
- **Construction and Development Lending**
- **MBL Modification**
- **Regulatory Limits / Waivers**
- **Third Party / CUSO Relationships**

Best Practices

THIRD PARTY AND CUSO RELATIONSHIPS

- **Credit Unions Service Organization (CUSO) or other Third Party Underwriter**
- **Loan Participation – Lead Lender and Participants**
- **Appraiser/Inspector**
- **Environmental Consultant**

Best Practices

BOARD AND MANAGEMENT

- **Place successful business leaders on your board for support and oversight**
- **Determine MBL reporting**
- **Clear MBL operational structure and adequate internal control**

Best Practices

EXPERTISE

- MBL program management
→ **VP of MBL**
- Business relationship development
→ **Business Development Loan Officer**
- Strong underwriting standard and practice
→ **MBL Underwriter or Credit Analyst**
- Loan administration
→ **Loan Administrator – Monitoring**
→ **Collection of Problem Loans - MBL Collector**

POLL QUESTION

MBL UNDERWRITING

POLL QUESTION ANSWERS

MBL UNDERWRITING

Weaknesses

- **Inadequate Management Information System (MIS)**
- **Inappropriate risk rating system**
- **Uncontrolled growth**
- **Insufficient due diligence on third party**
- **Inadequate follow-up**

SUMMARY

- Today, we've tried to cover a variety of practical MBL considerations and issues from the examiner's perspective.
- The one take-away for you: Credit unions can and should consider offering MBLs. But if you do so, you have to do them right – with appropriate risk management, expertise and due diligence.
- The guidance we cited is available on NCUA's website at www.ncua.gov

WEBINAR ARCHIVE INFORMATION

A media advisory will be issued when the Member Business Lending: Regulators' Perspective Webinar becomes available on the www.ncua.gov website.

It will include:

- **the video and slide presentations;**
- **supporting documents;**
- **a complete list of all questions asked by attendees the day of the webinar answered by NCUA experts.**

QUESTION AND ANSWER

